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SUBJECT: TREASURY U-S LEVEY TALKS IRAN WITH AUSTRIAN  
REGULATORS, BANKS

Classified By: DCM Scott Kilner for reasons 1.4 (b/d)

¶1. (S) SUMMARY. On September 10, Treasury Under Secretary Stuart Levey met Austrian financial regulators and representatives of the Raiffeisen and Bank Austria-Creditanstalt groups to warn of the continued risks of doing business with Iranian entities. Austrian regulators were receptive but questioned their ability to stop banks from doing business with Iran where such business is legal. U/S Levey cautioned Raiffeisen leadership that the bank is now one of a handful of institutions doing large-scale payments business for Iran; Raiffeisen said the bank is well aware of the risks and wants to limit its business but is nevertheless determined to keep ties to Iranian customers rather than walk away from the market. END SUMMARY.

Ministry of Finance and Financial Market Authority  
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¶2. (S) In his meeting with MinFin Director General Thomas Wieser and later with Financial Market Authority (bank regulator) co-CEO Helmut Ettl, U/S Levey detailed the threat posed by Iran's attempts to deceive foreign financial institutions and shared information on new payment methods employed by at least one designated Iranian bank. He emphasized the good multilateral cooperation to implement UNSCR 1737 and 1803, efforts which we hope will bear fruit in changing Iranian behavior. U/S Levey also cited USG concerns over the Raiffeisen group's growing role in facilitating payments flows by Iranian banks, a role that puts Raiffeisen in a very small group and exposes it to risks. With its move away from the dollar, Iran needs euros and is adept at employing deceptive financial practices to get them.

¶3. (S) On the question of deceptive practices by Iranian banks, Wieser suggested that European banks have no way to detect they are being deceived; U/S Levey replied that based on the Iranian record in recent years, European banks should presume that even seemingly innocuous payment requests can potentially be illicit and may support proliferation activities (and given that the Central Bank of Iran may act as a proxy for designated banks). Wieser said the GOA agrees with USG goals ("teleology") but cannot offer "watertight assurances" that private Austrian banks will terminate legal transactions. Rather, Wieser will continue to raise awareness and exercise "moral suasion" -- pointing out that he had interceded with Raiffeisen representatives after April to express potential concern over their growing ties to Iran. Wieser offered to follow up again with Raiffeisen the following week ("but then it's in their court") and conveyed his sense that its board wants to limit Raiffeisen's exposure to Iran.

¶4. (S) U/S Levey previewed USG concerns about Iran's shipping line, IRISL (Islamic Republic of Iran Shipping Line), and outlined the concept of approaching the insurance industry as a financial service captured in UNSCR 1737. IRISL's repeated efforts to conceal missile/WMD technology transfers provides a good example to begin engaging with the insurance industry, first with those who provide insurance to IRISL. Insurance is a financial service, and UNSCR 1737 prohibits the provision of financial services that could be used by Iran to further its nuclear and missile program. Levey stated that insurers ought to take similar precautions to those which have led most banks

to wind down their Iran business. Both MinFin and FMA reps were receptive, with Wieser saying he would make informal inquiries but that it is highly unlikely Austrian insurers have maritime exposure (something rather limited to London and perhaps Zurich/Munich).

15. (S) FMA representatives thanked U/S Levey for his briefing, noting that Austrian regulators don't have insight into Iranian financial practices which makes it impossible to bar seemingly legal transactions. Ettl did express concern and knowledge of the issues surrounding Raiffeisen, noting that he believed Raiffeisen is on track to cut back its Iran business, but that the bank is determined not to exit that market completely. Ettl asked about the extent of risks facing Raiffeisen to which U/S Levey replied that the reputational risk is considerable, especially now that Raiffeisen is in a tiny cohort of Western banks with close ties to Iran. On a related note, U/S Levey advised caution in reviewing any Iranian investment in Austrian banks or foreign branch openings (FMA reps confirmed that they have authority to block such moves and said they would exercise extreme scrutiny). Ettl reflected that Austrian banks are much more vigilant now about Iranian transactions and asked that we keep bilateral lines of communication open.

Bank Austria/Creditanstalt: On Board

16. (S) Representatives of Bank Austria-Creditanstalt (noted: owned by the Italian Unicredit group) indicated their business with Iran has declined substantially in the past two years with a "dramatic" fall in demand by Austrian customers for transactions with Iranian entities. Head of Compliance Dr. Herbert Pichler assured U/S Levey that preserving the bank's reputation is its top priority and it has heard informally about irregularities in Iranian dealings. Head of Structured Trade / Export Finance Angelor Rizzuti confirmed that BA-CA is not providing correspondent services to Iranian banks. Fraud Prevention head Herbert Preis said there are "no active attempts" by Iranian banks to increase their deposits at BA-CA and that the bank considers all Iran transactions to be high-risk. For instance, the bank notified authorities when several hundred Iranian citizens opened passbook savings accounts, but later discovered that the group consisted of legitimate Jewish emigres departing Iran. The EU's latest sanctions have increased reputational risks for banks, he opined.

Raiffeisen Trying to Hang On While Setting Limits

17. (S) At Raiffeisen Zentralbank (RZB - the headquarters for the Raiffeisen group), representatives indicated that the bank would like to limit its exposure to Iran but made clear that the bank sees a strategic interest in not exiting that market completely. RZB Board member Patrick Butler (who had met U/S Levey in Washington July 1) drew a parallel to the 1998 ruble crisis when virtually every foreign bank except Raiffeisen left Russia. By hanging on (at a cost of over \$200 million), RZB now has a thriving business in Russia -- leading U/S Levey to point out the difference between standing behind Russia during an economic crisis and standing behind Iran while it seeks nuclear capabilities. U/S Levey underscored that Iran poses not a market risk, but a risk to reputation and integrity. Butler said that Raiffeisen is not a "Johnny come lately" in Iran: it has served Iranian banks for decades and wants to preserve those relationships as it did in Libya during that regime's isolation. Levey pointed out the heightened risk in clearing transactions when you don't know the Iranian customer, as compared to clearing transactions for Raiffeisen's own clients. Executive VP/Head of Global Markets Martin Czurda acknowledged the point, but said they would continue the service as foreign bank deposit business is at the very core of relationship banking in foreign countries where there is no direct presence; stopping that would be tantamount to walking away. Raiffeisen noted that even though offering payment services is not very profitable, the bank is "keen to retain" relationships and "keen to enable" legitimate business for its customers. Butler: "We're not an investment bank that goes into and out of countries .... but we realize we're steering between Scylla and Charybdis" in the case of

Iran.

¶8. (S) Following up on the July 1 meeting in Washington, RZB reps acknowledged again that their Iran payments business had grown since 2007 and that the bank was trying to head off any further growth. They noted a decrease of 25 percent in payment services to Iran since the last meeting with USG representatives in July. (Note: In July, RZB conveyed to U/S Levey that their payment services for Iran had quadrupled in the first quarter of 2008, so the 25 percent decrease still leaves RZB providing three times more payment services for Iran than last year.) Before June, this problem was not on the radar screen; now the bank's board gets monthly reports on its Iran business and has set an EUR 228 million cap on exposure to "documentary" transactions. Czurda said the bank told its Iranian customers in July that RZB "did not want to become their European clearer" and will be careful to see that it is not exploited by them. Legal/Compliance lead Peter Prebil said that RZB is strictly monitoring all terms of all transactions involving Iranian parties. There appears to be a declining demand for transactions, said Prebil (about 150 in Q3/2008, down from twice that figure in Q3/2007).

¶9. (S) U/S Levey cautioned RZB reps that the bank has singled itself out for unknowable risks by trying to stand by Iran while other banks and governments move in the opposite direction. (Butler indirectly acknowledged the point in complaining about recent media coverage). While the USG knows that European companies will continue exporting to Iran, RZB provides payment services to Iranian banks unrelated to identifiable exports. Sanctions and restrictions reflect an underlying fact: Iranian banks are controlled by a dangerous regime and RZB runs deep reputational risks by treating the situation as an opportunity.

¶10. (S) Butler said that RZB recognizes the potential gravity of the situation and inherent risks ("we hear you loud and clear"). Raiffeisen's Iran business is not a profit center, but it is a long-term commitment in hope of better times to come. RZB will "take another look" at its business ties and consider any additional steps.

¶11. (U) U/S Levey cleared this cable.  
GIRARD-DICARLO

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End Cable Text